Office of the Superintendent of Financial Institutions Canada
Bureau du surintendant des institutions financières Canada

Office of the Superintendent of Financial Institutions

Internal Audit Report on Corporate Services – Finance Governance – Internal Controls Over Financial Reporting

April 2014

OSFI
BSIF

Canada

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1. Background

Introduction

Internal Audit conducts assurance work to determine whether the Office of the Superintendent of Financial Institutions Canada (OSFI)'s risk management, control and governance processes at the, as designed and represented by management, are adequate and functioning in a manner to ensure risks are appropriately identified and managed, and to ensure compliance with such requirements as policies, plans, procedures and applicable laws and regulations.

The audit of Finance Governance was approved by the OSFI Audit Committee and the Superintendent for inclusion in the OSFI 2013-2014 Internal Audit Plan.

This report presents the results of that audit based on audit work completed at the end of December 2013.

This report was presented to the OSFI Audit Committee on April 10, 2014 and approved by the Superintendent on April 16, 2014. The Assistant Superintendent, Corporate Services Sector, and Finance Division's Senior Management have reviewed this report and provided their comments.

Why this audit is important

Similar to the expectations of private and other public sector organizations, Parliament and the public expect the federal government's departments to provide transparent and reliable financial reporting. These demands and expectations for explicit assurance regarding the integrity of financial reporting have only increased in recent years.

The Treasury Board's (TB's) Policy on Internal Control (PIC) is intended to ensure that effective systems of internal control over financial reporting (ICFR) are implemented across the federal government departments. An effective ICFR system aims to provide reasonable assurances that:

- Transactions are appropriately authorized;
- Financial records are properly maintained; and
- Financial statement reporting is reliable and transparent.

1. **Background,** Continued

Policy Expectations

The PIC outlines the responsibilities of federal department deputy heads and the Chief Financial Officers (CFOs) for internal control management and its assessments. These responsibilities include:

- PIC 6.1.1.: Deputy heads are responsible for establishing, maintaining, monitoring and reviewing the departmental system of internal controls to ensure that internal controls are commensurate with the risks they are intended to mitigate; and

- PIC 3.6.: CFOs are to support their deputy heads by establishing and maintaining a system of internal controls related to financial management, including financial reporting and departmental accounts.

PIC 6.1.2: TB's expectations include a requirement for the department's deputy head (i.e. the Superintendent) and the CFO to sign an annual *Statement of Management Responsibility Including Internal Control Over Financial Reporting* (Statement). This Statement prefaces the departmental financial statements with a summary of the results of management's assessment of the system of Internal Controls over Financial Reporting (*ICFR*) and acknowledges:

- Management's responsibility for maintaining an effective system of internal controls over financial reporting;
- Conducting an annual risk-based assessment of the ICFR to determine its ongoing effectiveness; and
- Establishing an action plan to address any significant issues identified during management's annual assessment of the effectiveness of the system of internal controls over financial reporting.

OSFI's approach to assessing their system of ICFR

During the fiscal year 2010/2011, OSFI, led by the Finance Division with the assistance of an external consultant, commenced work on a PIC Project to comply with the Treasury Board's PIC. This resulted in OSFI's "*Five-Year Risk-based Plan for the Assessment, Remediation and Ongoing Monitoring of Internal Controls over Financial Reporting*" (the Plan) for the fiscal years 2011/2012 to 2015/2016.

OSFI is now focused on the ongoing monitoring of its system of ICFR, since its implementation and initial assessment in 2011/2012.

1. Background, Continued

OSFI's approach to assessing their system of ICFR (Continued)

The Plan defines the following:

- The scope of the controls and processes that OSFI considers to be part of its system of internal controls over financial reporting;
- Roles and responsibilities for maintaining the design effectiveness of the controls, and for testing, assessing and evaluating the design and operational effectiveness of the controls;
- Key assumptions for ongoing assessments; and
- "Assessment Protocols" for the nature, extent and timing of the assessment, remediation and reporting of OSFI's ICFR from fiscal 2011/2012 to 2015/2016.

Each of the ICFR processes has a process owner responsible for the ongoing maintenance of the design effectiveness of the key controls within the process they respectively own, including the remediation of any exceptions that the PIC Core Team may have identified during the testing they perform.

The OSFI PIC Core Team

The OSFI PIC Core Team is responsible for the testing, assessment and evaluation of the design and operational effectiveness of the internal controls over financial reporting, on behalf of Management. This includes identifying any control exceptions noted during testing.

The PIC Core Team is comprised of staff from within the Finance Division and is led by the Manager, Financial Policy and Projects, who reports to the Director of Finance & Deputy Chief Financial Officer.

The Managing Director, Finance and Corporate Planning & Chief Financial Officer (CFO) validate the conclusions and recommendations made by the PIC Core Team, as a result of the testing they perform.

The PIC Core Team relies on the help of external consultants on an "as-needed" basis. The consultants were engaged at the onset of the PIC Project with the assumption that the testing of internal controls in subsequent years will be conducted solely by OSFI staff. Currently, the consultants continue to provide testing resources every year for approximately 50% of the total OSFI ICFR work effort.

2. About the Audit

Audit Objective

The objective of the audit was to provide reasonable assurance that management's representations of its maintenance, monitoring, assessment, and evaluation of its system of internal controls over financial reporting (ICFR) are supported by sufficient and appropriate evidence.

Specifically, IA assessed:
- Compliance with the TB's Policy on Internal Control (PIC);
- Management's representations on the design and operational effectiveness of the internal controls over financial reporting;
- The effectiveness of the OSFI ICFR governance structure and approach; and
- Change management processes for sustaining ICFR.

Audit Scope

The scope of the audit was for the period April 01, 2010 to September 30, 2013. It included a review of:
a) The maintenance, monitoring, assessment and evaluation of the effectiveness of both the design and the operation of internal controls over financial reporting that were tested by the OSFI PIC Core Team.
b) Governance and oversight of ICFR.

Audit Approach

The audit evaluation criteria, as set out in <u>Section 5: Audit Results</u> were used for assessing Management's assessment on the design and operational effectiveness of its system of internal controls over financial reporting to comply with the TB's PIC. These criteria are based on the internationally recognized Enterprise Risk Management – Integrated Framework recommended by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The approach to conducting the audit included:
- A review of relevant documentation, such as the applicable TB policy and guideline; internal risk-based plans (e.g. OSFI's "*Five-Year Risk-based Plan for the Assessment, Remediation and Ongoing Monitoring of Internal Controls over Financial Reporting*"); and minutes of the PIC Steering Committee meetings.
- Walkthroughs; review of control descriptions and process flow charts; and discussions with control owners, as appropriate, to assess Management's design of the controls.
- A re-performance of the controls testing performed by the PIC Core Team to assess their monitoring, assessment and evaluation of the <u>design effectiveness</u> of the controls.
- A re-performance of the controls testing performed by the PIC Core Team to assess their monitoring, assessment and evaluation of the <u>operational effectiveness</u> of the controls.
- Walkthroughs and validation of the ICFR governance, reporting, and monitoring processes.
- Discussions/interviews with key personnel.

3. Conclusion

Conclusion

Overall, Internal Audit (IA) is reasonably assured that management's representations of its maintenance, monitoring, assessment, and evaluation of its system of internal controls over financial reporting (ICFR) are supported by sufficient and appropriate evidence.

The documentation was generally sufficient to describe the process and controls and support the conclusions reached by the PIC Core Team in their testing, assessment, and evaluation of the ICFR controls.

In the Fall of 2013, the Office of the Auditor General (OAG) released their Report that included results of their follow-up audit on Internal Controls Over Financial Reporting. The follow-up examined the progress of selected federal departments in implementing the requirements of the Policy on Internal Control (PIC). Of the seven departments in scope, only two had fully implemented the Policy. Although OSFI was not included in the original or follow-up audit, IA has determined that OSFI has fully implemented the PIC, and is in their second year of continuous monitoring of internal controls.

OSFI has an established governance structure and a defined framework for the on-going monitoring of its existing system of internal controls over financial reporting to comply with the Treasury Board's PIC.

To ensure that Management continues to meet the expectations of the TB's PIC and that OSFI's monitoring of its systems of ICFR continues to be relevant and appropriate:

1. Management will need to develop a strategy for sustaining its system of ICFR, specifically, for the upcoming systems change. Management should assess and evaluate the key risks and controls for those significant financial reporting processes impacted by the financial information system implementation prior to office reliance.
2. Management should re-visit its methodology to ensure that the testing period is for the full fiscal year.
3. OSFI's risk-based plan should be regularly reviewed and updated for continued operational relevance.

We wish to recognize the excellent collaboration of all those involved in the audit. The depth of the review and the ability to focus on what matters would not have been possible without the support received throughout the audit.

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Chief Audit Executive, IA   Date

3. Conclusion, Continued

Statement of Conformance

The audit was conducted in conformance with the professional internal audit standards of the Institute of Internal Auditors (IIA) and the Government of Canada, as supported by the results of the Quality Assurance and Improvement Program. The evidence was gathered and the procedures used are in compliance with Treasury Board (TB) policies, directives, and both the IIA and TB standards on internal audit.

4. Management Response

Overview   This report has been reviewed by the Director of Finance, Chief Financial Officer and Managing Director of the Finance Division, and the Assistant Superintendent, Corporate Services Sector, who acknowledge its observations and recommendations.

Response   Management agrees with the audit observations and recommendations. Management's strategy for sustaining its system of ICFR will be implemented as outlined on page 14 of this report, while our planned actions in response to the remaining recommendations are provided on pages 17-20.

Management appreciates the work completed by the Internal Audit team and the time it invested to review and understand the Finance Division's five-year risk based plan for the assessment, remediation and ongoing monitoring of its system of ICFR and all of its processes, documentation, test results and continuous improvements to internal controls since the plan's implementation in fiscal year 2011/2012.

5. Audit Results

Control Element / Audit Evaluation Criteria	Observation
1. Governance	

1.1. OSFI has a governance structure and framework for ICFR, where roles and responsibilities are defined and a structure exists for escalating testing exceptions and other issues, as appropriate.	• OSFI has a governance structure and framework for ICFR that includes:
	   o a Charter for the Policy on Internal Control project – the "***PIC Project Charter***" (November 2010)
	   o a Policy on Internal Control Steering Committee – the "***PIC SC***"
	   o a framework documented in the *Five-Year Risk-based Plan for the Assessment, Remediation and Ongoing Monitoring of Internal Controls over Financial Reporting* – the "***Plan***" (June 13, 2011) for fiscal years 2011/2012 to 2015/2016.
	• Resources include the use of external consultants on an "as-needed" basis, with their transferring knowledge to OSFI staff.
	• Roles and responsibilities are defined and there is segregation of duties between the operation of the key controls and Management's ICFR testing.
	• There is a process for escalating testing exceptions and other issues.

1.2. The appropriate management oversight is established over OSFI's ICFR; e.g., a PIC Steering Committee (SC) exists; it has the appropriate mandate; and meets regularly.	• The PIC SC is chaired by an OSFI Executive. • The PIC SC meets at least quarterly, on average. • Minutes of key decisions are recorded and approved in the next PIC SC meeting. • Although there is no formally documented mandate, the objectives, roles and responsibilities of the PIC SC are outlined in the PIC Project Charter. • The CFO and/or the Director of Finance presents ICFR updates to the Executive and Audit Committees on a quarterly basis.
1.3. Management periodically reviews the Plan for ongoing relevance and any changes are reviewed and approved by the PIC Steering Committee.	The last version of the Plan is dated June 13, 2011 and there is no documentation to demonstrate that Management periodically reviews the Plan for ongoing relevance. ***There are opportunities for improvement. Refer to Observation # 3***

Control Element / Audit Evaluation Criteria	Observation
2. Process and Control Activities	
2.1. The design of the controls is effective to mitigate the key risks and adequate documentation exists to clearly describe the process; the risks that the controls are intended to mitigate; and the operation of the controls (i.e. who does what; how do the controls operate; when – i.e. frequency – for the controls).	• The "Process Narrative" documentation and related "Internal Controls Matrix" are generally sufficient to describe the process, risks and related controls. *There are opportunities for operational efficiencies. Refer to Observation # 4*
2.2. The clear and logical flow of the documentation to support Management's conclusions on the <u>design effectiveness</u> of the controls: i. Management's assessment and evaluation from its testing of the design effectiveness of the internal controls over financial reporting are consistent with the assessment protocols described in the Plan, with respect to the nature, extent and timing of the testing, including the testing of any remediated controls.	• Testing documentation is generally adequate to support the work performed by the PIC Core Team and their conclusions. *There are opportunities for improvement. Refer to Observation # 2, part 2*
2.3. The clear and logical flow of the documentation to support Management's conclusions on the <u>operational effectiveness</u> of the controls: i. Management's assessment and evaluation from its testing of the operational effectiveness of the internal controls over financial reporting are consistent with the assessment protocols described in the Plan, with respect to the nature, extent and timing of the testing, including the testing of any remediated controls.	• Testing documentation is generally adequate to support the work performed by the PIC Core Team and their conclusions. *There are opportunities for improvement. Refer to Observation # 2, parts 1 and 3*
3. Risk Management	
3.1 Management annually performs its risk assessments of the business processes supporting the financial statements, prior to its testing, assessment and evaluation of the design and operational effectiveness of the controls and updates the Plan accordingly.	• Management performs its annual risk assessments prior to their testing, assessment and evaluations of the controls.
3.2 Management has a process for sustaining the internal controls over financial reporting, e.g. when processes or systems change	*There are opportunities for improvement. Refer to Observation #1*
4. Monitoring and Management Reporting	
4.1 Results of the PIC Core Team's testing, assessment and evaluation of the internal controls over financial reporting, including the testing of any remediated controls, are	• The PIC Core team presents the results of their work, including any testing exceptions, to the PIC SC on a timely basis.

Control Element / Audit Evaluation Criteria	Observation
reported to the PIC SC on a timely basis.	
4.2 The "Statement" fairly reflects the results of the PIC Core Team's testing.	• For the work performed by the PIC Core team, the Statement fairly reflects the results of their testing. ***There are opportunities for improvement. Refer to Observation # 2, parts 1 and 2***
4.3 There is a process for escalating testing exceptions and other issues to the PIC Steering Committee on a timely basis.	• The PIC Core team presents the results of their work, including any testing exceptions, to the PIC SC on a timely basis.
4.4 Remediation plans, including completion dates are reasonable and are monitored by Management.	• Deficiencies and remediation plans are presented to the PIC SC on a timely basis. ***There are opportunities for operational efficiencies. Refer to Observation # 4***
4.5 The PIC Core Team's delivery against the "Five-Year Risk-based Plan for the Assessment, Remediation and Ongoing Monitoring of Internal Controls over Financial Reporting" (the "Plan") is monitored and reported to the PIC Steering Committee on a timely basis.	• The PIC Core team presents the results of their work, including any testing exceptions, to the PIC SC on a timely basis.

6. Observations and Recommendations

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Observation # 1 - Sustaining ICFR during significant change

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Observation: Sustaining ICFR during significant change

The Treasury Board's (TB's) **Policy on Internal Control** (PIC) requires federal departments to maintain an effective risk-based system of internal controls over financial reporting.

To meet this requirement, OSFI developed and documented its ICFR approach for the five-year fiscal period from 2011/2012 to 2015/2016 in its "*Five-Year Risk-based Plan for the Assessment, Remediation and Ongoing Monitoring of Internal Controls over Financial Reporting*" (June 13, 2011). The Plan outlines assessment protocols to provide for the ongoing assurance of the department's system of internal controls over financial reporting.

There is no documented strategy for Change Management situations, when significant changes are planned for existing ICFR processes or key systems supporting ICFR. For example, as part of its planned five-year Information Technology Renewal (ITR) roadmap, OSFI is currently replacing its existing financial information system.

Management has stated that they are aware of the need (1) to update their narrative documentation and related internal controls matrices, and (2) to assess and evaluate the key risks and controls for the significant Transaction Level processes impacted by the change to SAP (implementation date – April 1, 2014) to ensure the ongoing effectiveness of its system of ICFR, which is required by the Treasury Board's PIC. However, Internal Audit (IA) has not been provided with any documentation with Management's assessment and evaluation of (any) new or existing risks, as a result of the SAP implementation.   Management has stated that they will provide this documentation after the April 1, 2014 SAP implementation.

The SAP implementation introduces new processes and controls that affect the design and application of ICFR controls and potentially its risk profile. OSFI has joined a mature SAP 'cluster of clients' managed by the TBS. OSFI's financial reporting process and internal control design will materially change in terms of the TBS introducing standardized SAP operation controls, with SAP being hosted by TBS, and OSFI customizing selected processes. We recognize that through the SAP implementation project an assessment of the design and applicability of functionality and controls is underway. Management needs to complete their assessment and conduct a comprehensive risk analysis of ICFR's risk profile against OSFI's SAP internal control structure. This work is essential to verify the adequacy of ICFR financial reporting processes and internal controls going forward.

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6. Observations and Recommendations, Continued

**Observation # 1
– Sustaining
ICFR during
significant
change
(Continued)**

Recommendation:

Management should develop an ICFR change management strategy prior to reliance by OSFI on the financial information system's (SAP) implemented modules that does the following;

- Develops a strategy for identifying and updating the impact on ICFR of the SAP implementation.
- Develops a detailed plan, with tasks, resources and timelines for completing their update of the ICFR design narrative documentation and related internal controls matrices for the significant Transaction Level processes impacted by the SAP implementation. This plan should also include the documentation, assessment and evaluation of any compensatory controls that Management will be relying on during the transition period.
- Assesses and evaluates the key risks and controls for those significant financial reporting processes impacted by the SAP implementation.

Management Action Plan:

Management agrees with the recommendation that a strategy for identifying and updating the impact of the SAP implementation on ICFR is necessary. This work is now underway and the detailed work plan to assess the impact of SAP on ICFR activities will be completed in early July 2014. The implementation of the plan will occur between July and October and will include updating OSFI's Five-Year Risk-based Plan to reflect changes in operational and business processes, such as key process flowcharts, key controls and the control matrix.

In the interim, management has ensured that change management has been incorporated throughout the various work streams of the SAP project. In particular, management has focused on the people side of change to ensure that employees understand their role and the impact the system change has on them. This also includes an extensive mandatory training program and communication strategy.

Management will complete by February 2015 the design assessment of affected processes and by May 2015 the testing of the effectiveness of controls on a select number of key processes for 2014-2015 (in accordance with the updated risk-based plan for that fiscal year). This will allow management to attest to OSFI's system of internal controls for 2014-2015.

Responsibility: Director of Finance
Target Date for Completion: May 2015

6. Observations and Recommendations, Continued

Observation # 2 – ICFR Methodology – Testing coverage and completeness of population

Observation: ICFR Methodology – Testing coverage and completeness of population

OSFI's Five-Year Risk-based Plan details the Testing Plan for the assessment, remediation, and ongoing monitoring of OSFI's ICFR for the fiscal years 2011/2012 to 2015/2016. The Plan defines the significant processes that the PIC Core Team is to test for each fiscal year, including the timing for the testing. Internal Audit noted the following on the Testing Plan:

1. OSFI's ICFR Testing Plan is designed such that transactions in the last month of the fiscal year are often excluded from testing. There were processes where the samples selected for testing were from an 11-month period (April 2012 to February 2013) and excluded the last month of March 2013. Therefore, when the PIC Core Team performs its testing according to the Testing Plan, they would have a population of only 11 months' transactions available, at the most, to select their sample for testing. Furthermore, according to the Testing Plan, the Month-end/Year-end Accrual process is scheduled to be tested in all years (annually), however the year-end accrual controls were not tested for 2012-13.

   While the annual *Annex to the Statement of Management Responsibility including Internal Control over Financial Reporting* (the "***Statement***") does not explicitly state that the period of coverage is for the 12-month period to the end of March 31, 20xx, the Statement does imply that it is intended to cover the entire 12-month fiscal period.

   The standard wording on the testing documentation template is designed to record the following PIC Core Team conclusion: "… the controls appear to be operating effectively **as of** …" which is usually the date that the testing was completed. This wording for the conclusion does not reflect the period of coverage that was sampled and tested in support of the *Annex*.

2. Management's approach to testing, assessing and evaluating the design effectiveness of its system of ICFR is to inquire from the business process owner if there were any changes. If the business process owner responds that there were no changes, then the PIC Core Team will rely on the results of the walkthrough testing that was performed in the ICFR base year (2010/2011). Management will only re-perform the walkthrough tests in the years when the business process owners identify significant changes to their processes or controls. If changes are not identified by business owners and testing is done assuming the process has not changed, the testing may still result in positive results, since the full process is not tested. The risk is that the control tested may no longer mitigate the targeted risk but the control may still be operational and valid for other risks.

Continued on next page

6. Observations and Recommendations, Continued

Observation # 2 – ICFR Methodology – Testing coverage and completeness of population (Continued)

Observation (Continued)**:**

3. The testing documentation does not describe the procedures performed by the PIC Core Team to ensure the completeness of the population of transactions they used to extract their samples for testing.

   From discussions with the PIC Core Team, they undertook procedures to ensure the completeness of the population; however, it was not always easily apparent for a third party to confirm that a complete population was used by the PIC Core Team to draw its sample for testing.

   In the event that the PIC Core Team members are no longer with OSFI, it could be difficult for Management to re-perform the steps that were taken to ensure the completeness of the population.

Recommendation (Continued)**:**

1. Management should re-visit its methodology and update its detailed Testing Plan to ensure that the period of coverage for testing is for the full fiscal year. For example, Management can schedule most of the testing during months 11-12 (as they currently do), but also schedule further testing for the remaining months' transactions, after the year-end, to ensure coverage of the year-end controls. Deviations from the test plan should be presented to the Steering Committee.

   The present standard wording on the testing documentation template to record the testing conclusions is ambiguous and does not give any assurance that the controls were operating effectively for the fiscal period of coverage that was sampled and tested. The standard wording should be amended to include "… the controls are operating effectively for the period April 1, 20xx to March 31, 20xx …"

2. It is good practice to annually re-perform the walkthrough tests of all the key manual controls that are in scope, to assess and evaluate the design effectiveness of the system of ICFR. Typically, it is only the key automated controls that are not tested every year, as part of the annual ICFR testing for design effectiveness.

   Management should update its approach to testing, assessing and evaluating the design effectiveness of its system of ICFR to include annual walkthrough testing of the key manual controls.

3. The PIC Core Team should include procedures on their testing documentation to describe how they ensured that the population they used to extract their sample for testing was complete. These procedures should be of sufficient detail to enable a third party to confirm the completeness of the population for the period of coverage.

6. Observations and Recommendations, Continued

Observation # 2 – ICFR Methodology – Testing coverage and completeness of population (Continued)

Management Action Plan:

Full Period of Testing:
Management agrees with the recommendation and will amend its ICFR methodology as part of the actions outlined in response to audit observation #1 (page 14). Management will ensure that all high risk processes will cover a 12-month period for testing.

Responsibility: Director of Finance
Target Date for Completion: November 2014

Management agrees with the recommendation regarding the standard wording on the testing document and will amend it to include "… the controls are operating effectively for the period April 1, 20xx to March 31, 20xx …"

Responsibility: Director of Finance
Target Date for Completion: May 2014

Re-perform the Walkthrough:
The current ICFR methodology ensures that once the annual financial statement risk assessment is completed and business processes to be tested are identified, process owners are asked to re-validate the most recent ICFR flowchart and identify if the process has since changed. If there are significant changes, the process is updated and if required the control matrix is as well. Finance then proceeds to test the updated process and controls.

Management has assessed the risk raised by Internal Audit as low and is satisfied that existing processes are adequate and operating effectively as intended. No further action is planned.

Documentation of procedures for total population:
Management agrees with the recommendation and will create procedures on the ICFR testing documents to describe how the population used to extract the sample for testing was completed.

Responsibility: Director of Finance
Target Date for Completion: March 2015

6. Observations and Recommendations, Continued

Observation # 3 – Review and update of the Five-Year Plan for ongoing relevance (Continued)

Observation: Review and update of the Five-Year Plan for ongoing relevance

OSFI has documented its ICFR framework in the "***Five-Year Risk-based Plan for the Assessment, Remediation and Ongoing Monitoring of Internal Controls over Financial Reporting***" (the "***Plan***") for fiscal years 2011/2012 to 2015/2016.

The last version of the Plan is dated June 13, 2011 and there is no documentation to demonstrate that Finance has reviewed and updated the Plan, (including PIC SC approval), to ensure that the Plan and the ICFR methodology continues to be relevant to and appropriate for OSFI, e.g. with respect to the key assumptions; forthcoming industry-wide updates to the COSO Framework; Assessment Protocols (Nature, Extent and Timing); the Five-Year Risk-based Testing Plan; templates to be used for reporting (listed in the Appendices to the Plan); and so on.

Recommendation:

Management should implement a process to regularly review and update the Plan for continued operational relevance. Any updates to the Plan should be discussed at the PIC Steering Committee for their approval. For their next update, Management should consider the following:

- Whether the key assumptions are still valid or relevant to sustain the effectiveness of the on-going monitoring of the system of ICFR.
- The impact of the forth-coming industry-wide updates to the COSO Framework on the ICFR methodology.
- Updating the guidance on the sample size for the extended testing of an ad-hoc control.
- Updating the templates in the Appendices to what is actually being used or to a more user-friendly template.
- Using a consistent language for describing a testing exception.
- Consolidating the descriptions of the different types of testing exceptions by severity level into this document, including criteria to distinguish between the different types of exceptions.

6. Observations and Recommendations, Continued

Observation # 3 – Review and update of the Five-Year Plan for ongoing relevance (Continued)

Management Action Plan:

Management agrees with the recommendation. While the plan is used and referred to regularly for assessment purposes, it is not formally reviewed and updated on an annual basis.

As part of the overall review of the ICFR plan as a result of the SAP implementation, management will develop a process whereby the PIC Steering Committee will review the plan annually to determine if it requires any updates. Where and when needed, the plan will be updated. Any changes to the plan will continue to be reviewed and discussed at the PIC Steering Committee and any decisions around the changes will be noted within the Steering Committee minutes.

Responsibility: Director of Finance
Target Date for Completion: December 2014

Observation # 4 – ICFR documentation

Observation: ICFR documentation

IA noted that the ICFR documentation was generally sufficient to describe the process and controls used by the PIC Core Team in their testing, assessments and evaluations of the ICFR controls. IA noted the following that could improve its operational efficiencies:

- The PIC Core Team monitors the ICFR deficiencies they have identified, through a number of methods, e.g., spreadsheet tracking logs, or Action Items from the minutes of the PIC SC meetings. From an operational perspective, it would be more efficient and easy for the user to have one consistent approach for monitoring deficiencies, including the target deadlines for any remediation plans.
- Different versions of the Internal Controls matrix are being used, or a few of the matrices are not always completed with respect to some of the assertions; type of controls; last updated; validated by; and cross referencing to the process narratives.
- The documentation for a few process flow charts are not clear on who does what, when and how, with such information being captured across several documents.

Recommendation:

Although the above items noted did not significantly impact upon the testing work done by the Management nor would it affect their conclusions on the effectiveness of the controls, IA is of the opinion that the good work done by the PIC Core team can be further strengthened once they address the above.

Management should consolidate all of its internal controls matrices for the ICFR processes into one matrix to obtain a holistic view of its coverage for the financial statement assertions.

6. Observations and Recommendations, Continued

Observation # 4 – ICFR documentation (Continued)

Management Action Plan:

Management agrees with this recommendation. The implementation of the ICFR initiative was a major undertaking that required a lot of effort as all related activities were new to OSFI and also new to the government as a whole. Therefore, templates, matrices, flowcharts and other documents had to be created or adapted for OSFI's needs. Continuous improvement over the past few years has resulted in these types of documents being different from one another. As part of the impact assessment of SAP on ICFR, management will improve the consistency of the documents used for ICFR, including the consolidation of all internal controls matrices for the ICFR processes into one summary matrix to obtain a holistic view of the coverage for the financial statement assertions.

Responsibility: Director of Finance
Target Date for Completion: December 2014